VALLIS GROUP LIMITED

RESEARCH PROJECT

AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA)

1. INTRODUCTION

1.1 The African Continental Free Trade Area (AfCFTA) is an agreement by the African Union (AU) between 54 of the 55 African Union countries. The agreement is fundamentally a free trade area between the 54 signatories and 27 ratifying countries and is the largest free trade area in the world. The initial agreement requires its 54-member countries to remove 90% of tariffs from goods which therefore hopes to allow free access to commodities, various goods and services throughout the African continent. The planning of the agreement commenced in 2013 with a large portion of negotiations taking place at the African Union summit in 2015. The AfCFTA was agreed upon by 44 of the 55 African Union states at a meeting in Kigali, Rwanda on 21st of March 2018. Leaders from Zambia, Botswana, Nigeria, Benin, Eritrea and Guinea-Bissau refused to sign the initial agreement with the President of Nigeria Muhammadu Buhari stating he was concerned the agreement would affect entrepreneurship and industry within the country. However, in July 2019 Nigeria and Benin agreed to sign the AfCFTA. Zambia, Botswana and Guinea-Bissau have now also signed the agreement. Eritrea is yet to join the other countries and it is widely believed Eritrea did not sign the agreement due to heightened tensions with Ethiopia who had already joined the AfCFTA. However, after an Eritrea Ethiopia Business Summit in 2018 the Africa Union Commissioner for Trade and Industry advised he expected Eritrea to sign the African Continental Free Trade Area agreement soon.

2. AFCFTA MEMBER STATE SIGNATORIES

2.1 Initial Member State Signatories as of July 2019

2.1.1 Algeria

2.1.2 Angola

2.1.3 Benin

2.1.4 Botswana

2.1.5 Burkina Faso

2.1.6 Burundi

2.1.7 Cabo Verde

2.1.8 Cameroon

2.1.9 Central African Republic

2.1.10 Chad

2.1.11 Comoros

2.1.12 Cote d'Ivoire

2.1.13 Democratic Republic of Congo

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2.1.14 Djibouti

2.1.15 Egypt

2.1.16 Equatorial Guinea

2.1.17 Eritrea

2.1.18 Ethiopia

2.1.19 Gabon

2.1.20 Gambia

2.1.21 Ghana

2.1.22 Guinea

2.1.23 Kenya

2.1.24 Lesotho

2.1.25 Liberia

2.1.26 Libya

2.1.27 Madagascar

2.1.28 Malawi

2.1.29 Mali

2.1.30 Mauritania

2.1.31 Mauritius

2.1.32 Morocco

2.1.33 Mozambique

2.1.34 Republic of Congo

2.1.35 Namibia

2.1.36 Niger

2.1.37 Nigeria

2.1.38 Rwanda

2.1.39 Sahrawi Arab Democratic Republic

2.1.40 Sao Tome and Principe

2.1.41 Senegal

2.1.42 Seychelles

2.1.43 Sierra Leone

2.1.44 Somalia

2.1.45 South Africa

2.1.46 South Sudan

2.1.47 Sudan

2.1.48 Eswatini

2.1.49 Tanzania

2.1.50 Togo

2.1.51 Tunisia

2.1.52 Uganda

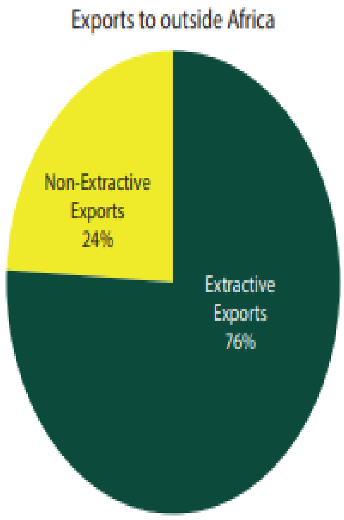
2.1.53 Zambia

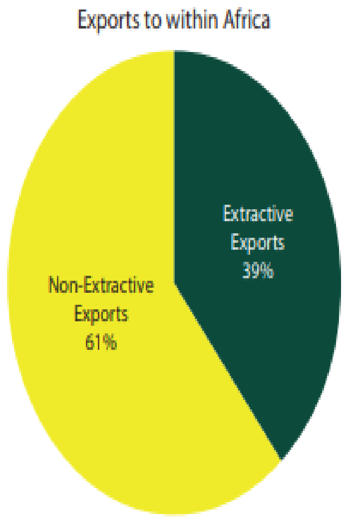
2.1.54 Zimbabwe

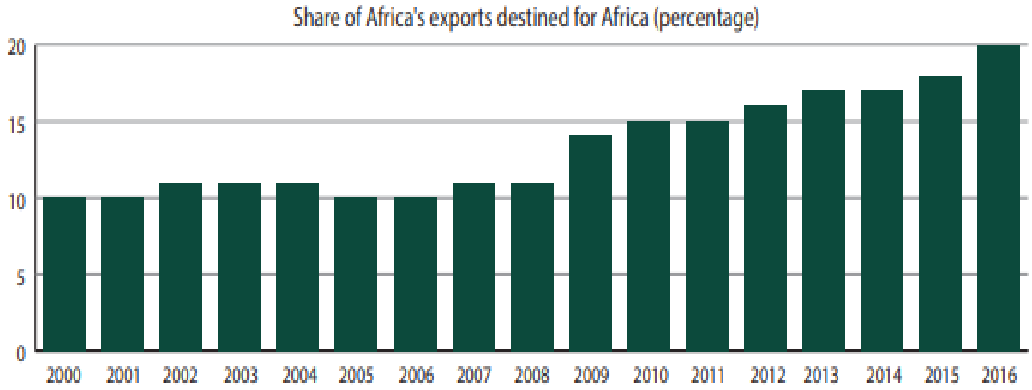
3. STRENGTHS AND OPPORTUNITIES FOR THE AFRICA CONTINENTAL FREE TRADE AREA

3.1 The AfCFTA has a market of approximately 1.2 billion people with an estimated Gross Domestic Product (GDP) of USD 2.5 trillion ranging across the 55-member countries of the African Union. The African market has huge potential with the African population estimated to reach over 2.5 billion by the year 2050. At this point in the future the African continent is estimated to hold around 26% of the worlds working age population. By 2050 experts forecast that the African continents economy will be growing twice as fast as that of the developed world. Businesses in Africa currently face average tariffs of 6.1% and face far higher tariffs exporting within Africa than when exporting beyond the African continent. The goal of AfCFTA is to remove tariffs on trade within Africa with the goal of making it far easier for African businesses to trade within Africa and in doing so cater for and benefit from the growing markets in Africa. Introducing AfCFTA will offer highly beneficial opportunities for traders, businesses and the consumer across the African continent and goals of supporting sustainable development in Africa which is the worlds least developed geographical area. Estimates forecast that AfCFTA will grow trade within Africa by 52%. This figure will be forecast to be reached by predominantly eliminating import duties on inter African trade. African industrial exports are set benefit greatly by the introduction of the African Continental Free Trade Area. AfCFTA aims to diversify Africa's economy away from traditional African industries such as commodities, mainly oil, gas and minerals (Extractive exports) and aim for a far more balanced, and more importantly, sustainable, exports within Africa. AfCFTA does not just aim to assist large, developed countries but aims to assist smaller, far less developed countries by linking these countries into regional value chains. Regional value chains involve large industries sourcing supplies from much smaller industries across African borders. AfCFTA's goal is to reduce costs in trade and encouraging investment. Countries who have large agricultural sectors look set to benefit greatly by providing food security to Africa's ever-growing populations. Many of these agricultural goods are perishable and AfCFTA's goal of improvements in logistics and customs clearance times will benefit such goods. Landlocked countries are set to benefit from AfCFTA initiatives as the cost of being landlocked involves higher freight costs and unpredictable transit times. AfCFTA will benefit these landlocked countries by reducing tariffs and allowing provisions on trade facilitation, transit, and customs cooperation.

4. EXTRACTIVE EXPORTS OUTSIDE AND WITHIN AFRICA







Source: *Figures I and II: Extractive exports: CEPII-BACI trade dataset, three-year averaged exports (2012-2014), extractive exports include petroleum oils, gas, non-ferrous metals, metalliferous ores and metal scrap, crude fertilizers and minerals, coal, coke and briquettes, and the remaining precious metals in HS 71, uranium, and the basic iron products of HS7201–HS7206. Figure III: Intra-African trade: IMF Direction of Trade Statistics.*

5. RISKS OF EXTRACTIVE OIL AND MINERAL VOLATILITY

5.1 Risks on particularly extractive products such as oil and minerals are their price volatility which heavily affect these businesses in Africa where many countries rely on them as their main source of income. AfCFTA plans to move away from extractive exports with the aim of enabling more secure and sustainable trade that depends far less on the prices of commodities on international exchanges. AfCFTA aims to produce more jobs for Africa's ever-increasing youth population. Extractive exports are far less labour intensive than the manufacturing and agricultural goods industries which require constant labour-intensive trade and benefit local African communities.

6. CRUDE OIL PRICE FLUCTUATIONS YEAR TO DATE

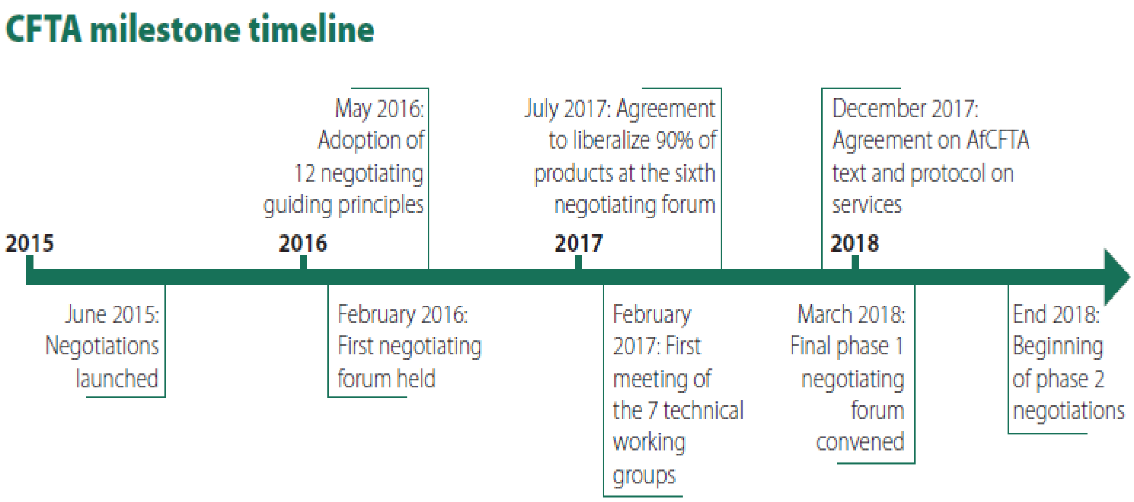
6.1 Below graph indicating crude oil price fluctuations in the year to date (YTD).

7. PROGRESS OF AFCFTA NEGOTIATIONS

7.1 Initial negotiations were started by African Union Heads of State in 2015 and by late 2017 negotiations had escalated into the initial drafting of the AfCFTA agreement. In 2018 AU negotiators met for the tenth time to finalise the agreement with the signing of the agreement taking place in March 2018. However, there were some outstanding issues to resolve such as agreements on dispute settlement mechanisms and several issues on the protocol on certain goods. In late 2018 there was a Phase two of the meetings which focused on intellectual property rights, competition and provision for investment.

8. CFTA TIMELINE

8.1 Below is a timeline indicating CFTA milestones.



9. FUNDAMENTAL PRINCIPLES OF THE AFCFTA

9.1 African traders, businesses and consumers will not have to pay tariffs on a variety of goods when traded between African countries.

9.2 Excessive paperwork and lengthy customs procedures will be removed or reduced drastically.

9.3 Increased and more effective cooperation amongst customs authorities regarding regulations on producers and greatly improved trade transit and facilitation with the goal of ensuring easier trade between African countries.

9.4 Protection of domestic industries against any unanticipated surges in trade. State Parties will have recourse to safeguard local African industries.

10. KEY FEATURES OF THE CONTINENTAL FREE TRADE AREA

10.1 Trade in Goods

10.1.1 Eliminate duties and quantitative import restrictions.

10.1.2 Imports will be handled no less favourably than products produced domestically.

10.1.3 Eliminate non-tariff barriers.

10.1.4 Increased cooperation between customs authorities.

10.1.5 Facilitation in trade and transit of goods.

10.1.6 Protection of smaller industries and other exceptions to be determined.

10.1.7 Increased cooperation between African countries regarding regulations and certain standards on products.

10.1.8 General better cooperation and technical assistance between African nations.

10.2 Trade in Services

10.2.1 Increased transparency on service regulations.

10.2.2 Mutual recognition of licencing, standards and certification of suppliers of services.

10.3 Phase 2 Negotiations

10.3.1 Competition policy.

10.3.2 Investment.

10.3.3 Intellectual property rights.

10.4 Dispute Settlement

10.4.1 Still to be agreed upon.

11. HOW BUSINESS CAN ASSIST IN THE IMPLEMENTATION OF AFCFTA

11.1 AfCFTA is a potentially vital tool for private enterprises in Africa but it needs to be adopted by traders, businesses and consumers so that they can trade across the African continent. AfCFTA is a huge opportunity for business development in Africa but it is crucial that it is embraced by private enterprise and in doing so these businesses will have substantial benefits at their disposal in the African continent and assist the continents development and sustainable growth.

12. WEAKNESSES AND THREAT ANALYSIS OF THE AFRICAN CONTINENTAL FREE TRADE AREA

12.1 AfCFTA will only be successful if it incorporates a very robust and well financed, integrated program for the entire African continent. This is needed to prevent the large transitions for businesses and their staff that trade liberalisation policies induce across the world. While doing this it is vital that effective facilitating of the entry of new business and their staff is in place. Africa is poorly designed to handle the very high existing unemployment, weather related disasters or external international macroeconomic turbulence such as a downturn in global commodity prices let alone the additional impact of significant trade liberalisation that the AfCFTA agreement would bring. With this in mind it is vital that AfCFTA has the effective structuring, arranging and finance for the implementation of an African continental “safety net” in place that will be able to meet the needs of the AfCFTA. This is likely the make or break factor for the agreement because Africa is mostly made up of low-income countries but also because the elimination of tariffs by AfCFTA will reduce African governments financial resources and diminish public funds that are readily available for trade adjustment assistance. Estimates forecast this reduction will be over USD 4 billion annually across the continent. Very innovative approaches will be needed to meet the above-mentioned financial requirements which are far beyond the routine loans from financial institutions. It has been said that one possible approach could be the establishment of an African continental public private partnership where African businesses that will profit from the expansion of trade under AfCFTA would be the major financiers. Another challenge faced by the AfCFTA is that Africa’s existing trade suffers from a major problem. Less than one fifth of the average African country’s exports are bought by customers in other African countries. In other words, more than 85 percent of exports from African countries are sold outside the continent. This pattern of trade is literally the opposite of what occurs in most other parts of the world. These trade conditions are mostly since most African business’s locally are small and medium sized companies. One of AfCFTA’s greatest problems is a very concerning lack of infrastructure to supply goods and services to markets at competitive prices.

13. THREAT ANALYSIS OF THE AFRICAN CONTINENTAL FREE TRADE AREA

13.1 The concept of an AfCFTA has been around for many years in Africa along with the concept of a single currency. The primary pressure for these initiatives has come from the most developed of the African countries with sizable natural resources. The likes of South Africa and Egypt are examples of this. The threat is limited in that such policies rarely become operational realities across the entire continent and each country develops internal policy rules to protect its own economy. While there may be a free trade agreement for movement of grain import and export permits we have seen very few times in Southern Africa where grain import and export permits are “regulated” at national levels. Political ambitions on a national level will always take precedence over the greater policy frameworks across Africa. The political financial gain disorder that is common in Africa will always delay such impacts for as long as duties are payable on products along with import permits the fundamental desire of each economy (particularly the less developed and financially secure ones) will be to remove revenue generation in the form of duties and taxes on product movements. These make up a significant portion of many countries’ revenue generation, and revenue generation pays civil servants which are the voting public. There remains significant debate politically around the fundamental benefit of a policy such as AfCFTA inside each country as the creation of a level playing field to compete between countries does not allow countries to protect their fledgling industries as they develop to a point of being able to sustainably complete with regional power houses.

14. IMPACT OF THE AFRICAN CONTINENTAL FREE TRADE AREA ON VALLIS GROUP LIMITED

14.1 In the short and medium term there is little realistic impact on Vallis Group and its present activities. While AfCFTA becomes policy, the reality is that each country will protect its own economies as previously detailed for its own domestic security reasoning. The policy is one to be observed as how it develops itself over time and the level of pressure that developed African countries place on less developed nations to “adhere” to the policy. The selective implementation of the policy may benefit Vallis Group in that there could be the increased movement of goods between countries under SMA and CMA agreements. The reality is that the financial risks and concerns of any commercial transaction will always remain the same and parties will face payment risks and looks for collateral management assistance and independent supervisory insight.